

NEW BUSINESS MODELS IN TRAVEL BROKERAGE: THE AMADEUS CASE

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New technologies, greater expectations on the part of consumers and the low-cost effect are substantially changing the tourist sector. Highlights amongst its defining characteristics are the complexity of its structure and a constant and exponential evolution, in which innovation plays a key role. Innovation has been at the heart of its changes, not only in general terms but also structurally, which in turn has led to see changes on both the supply and demand sides. These changes have led to a restructuring of this industry traditional operations, where each travel broker takes on new roles that need to be analysed.

Innovation and the strategic use of technology in the tourist sector were most clearly illustrated by the airline computer reservation system (CRS). A CRS is a centralised database that is regularly updated and accessible to subscribing agents. The implementation of this system in travel agencies and the incorporation of the entire offer in terms of both airlines and sundry services (hotels, car hire, etc.) made these centralised systems essential in terms of both retail and marketing.

The expansion of operations and the inclusion of many other tourist products and alternative retail methods, with online access, have meant the original CRS has evolved into a Global Distribution System (GDS). In addition to the functions provided by the old CRS there are new features, such as: customer databases, agendas, interfacing with internal management and sales programs and the issue of electronic tickets. This new understanding of the reservations system has meant the globalisation of both the services provided and the geographic operating markets. Today, the GDS industry is controlled by four major organisations: Amadeus, Galileo, Sabre and Worldspan. The market leader in Europe is Amadeus, created in 1987 by the carriers Iberia, Air France, Lufthansa and SAS (see figure 1). In Spain it was SAVIA - now Amadeus España - that at that time began to design and sell local services and products for Spanish travels agencies, spreading to Portugal in 1998.

Figure 1: Companies owning GDSs

	AMADEUS	SABRE	GALILEO	WORLDSPAN
<i>Head-offices</i>	Madrid, Spain	Southlake, Texas, USA	Parsippany, New Jersey, USA	Atlanta, Georgia, USA
<i>Reservations (million)</i>	454.1	321.3	269.2	-
<i>Travel agencies connected</i>	66,859	56,000	43,500	16,000

Source: Amadeus España, 2008.

The current state of the GDS market is that of a sector whose pace of growth is slowing down. Although the overall number of reservations has remained stable or even grown slightly, over the first six months in 2009 the number of travel agencies connected to the Amadeus reservations system in Spain fell by 10.7% regarding the number of establishments recorded in June the previous year. These data are indicative not only of the process of concentration that travel agencies are undergoing in Spain, but also of the maturity attained by Global Distribution Systems. The origin of this state of affairs lies largely in a far-

reaching process involving the removal of the middleman that is transforming an airline industry increasingly obsessed with reducing costs. In the struggle for efficiency, the internet has turned out to be a vital tool that has opened the door to more direct relationships between suppliers and end consumers, furthering the phenomenon of the low-cost offer that has been taken up by all the other purveyors providers of tourist services (hotels, cruise companies, car hire, etc.).

In time, the Network of networks has become a new and essential retail channel that has brought about major changes in the GDS market: the disappearance of the "agreed" distribution of geographic markets with other GDS, the elimination of technological entry barriers with the ensuing appearance of new competitors and the development of an end consumer with greater experience and access to tourist information that, until just recently, was only available in professional circles. In view of all this, the pathways for growth will be restricted to new developments in technology and to the search by their owners for new business models.

The proliferation of sales channels with the ensuing dissemination of content has increased strategic options and the opportunities for differentiation in the tourist sector. This has forced those companies traditionally marketing and maintaining GDSs, at the level of wholesale brokerage, to supplement their offer with new business units. On the one hand, they have begun to provide their services directly over the internet, creating their own virtual retail agencies or subscribing partnership agreements. On the other hand, they are designing new more customised tools based on the needs of their client companies.

Within this scenario, Amadeus España has recognised the key role information technology will play in the implementation and success of its customers' new differentiation strategies. It is therefore the technological partner of choice for purveyors, distributors and consumers of tourist products. Indeed, the slogan the company has been using since 2006 - "*Your technology partner*" - reflects the firm commitment Amadeus has to its customers, providing them with support in all those fields they need to cover, and addressing all possible areas of development for their users. The company's customer groups include such major players as suppliers (airlines, hotels, car hire companies, railway operators, ferry lines, cruise lines, insurance companies and tour operators), retailers of tourist products (travel agencies) and travel consumers (businesses and private travellers). The company provides solutions in distribution, management and sales that help customers to adapt grow and succeed in the changing travel market, evolving from suppliers of a specific product to providers of comprehensive technological solutions.

The company's extensive portfolio of technological solutions (products) is grouped into four categories: Distribution and Content, Sales and e-Commerce, Business Management and Services and Consultancy. For illustrative purposes, the following table contains some of the better known ones.

The company's present business model gives it significant competitive advantages, as competitors find it difficult to imitate. Some of the critical choices that have informed the model are featured in figure 3. This model is built on four main pillars:

- A consolidated customer portfolio based on a profound understanding of their needs and on the maintenance of impeccable long-term relationships with them.
- Technological leadership based on sustained investments in innovation and processes.
- Technological and operational synergies.
- Wide range of products distinguished by their reliability, efficiency and comprehensiveness that provides them with opportunities for cross-selling.

Figure 2: Details of products available for a travel agency customer

Solutions guide for agencies							<table border="1" style="font-size: small;"> <tr> <td>* With service</td> <td>- Not available</td> </tr> <tr> <td>S Stock</td> <td>O Optional</td> </tr> </table>		* With service	- Not available	S Stock	O Optional
* With service	- Not available											
S Stock	O Optional											
DISTRIBUTION AND CONTENT	BUSINESS	HOLIDAYS	ONLINE	TOUR OPERATOR	PROFESSIONAL	NET ACCESS						
						STANDARD	PREMIUM					
Amadeus Air	*	*	*	*	S	S	S					
Amadeus Hotels	*	*	*		S	S	S					
Amadeus Cars	*	*	*		S	S	S					
Amadeus Rail (Renfe – Spanish Railways)	*	*			S	S	S					
Amadeus Ferry	*	*			S	S	S					
Amadeus Cruise		*			S	S	S					
Amadeus Insurance	*	*			S	S	S					
SALES AND E-COMMERCE	BUSINESS	HOLIDAYS	ONLINE	TOUR OPERATOR	PROFESSIONAL	NET ACCESS						
						STANDARD	PREMIUM					
Sales												
Amadeus Selling Platform	*	*		*	S	-	S					
Amadeus All Fares	*	*		*	O	-	O					
Amadeus E-mail	*	*	*		S	S	S					
Amadeus Value Pricer	*	*		*	O	O	O					
Amadeus Electronic Ticketing	*	*	*	*	S	O	O					
Amadeus Car e-Voucher	*	*	*		O	O	O					
e-Commerce												
Amadeus Agency Internet Engine		*	*		O	O	O					
Amadeus e-Retail Engine		*	*		O	O	O					
Amadeus e-Travel Management	*		*		O	O	O					
Amadeus Web Services	*	*	*	*	O	O	O					
Amadeus Checkmytrip.com	*	*	*		S	S	S					
SAP Travel Management with Amadeus	*				O	O	O					
Amadeus Master Price	*	*	*	*	O	O	O					
BUSINESS MANAGEMENT	BUSINESS	HOLIDAYS	ONLINE	TOUR OPERATOR	PROFESSIONAL	NET ACCESS						
						STANDARD	PREMIUM					
Mid & Back-office												
Amadeus Interface Record	*	*	*	*	S	S	S					
Amadeus Rail Interface Record (RVD)	*	*			S	S	S					
Customer management												
Amadeus Customer Profile	*				S	S	S					
Amadeus Policy Arranger	*				S	S	S					
Amadeus Travel Preferences Manager	*				S	S	S					
Amadeus Quality Control	*	*			O	O	O					
Amadeus PNR	*	*	*	*	S	S	S					

Source: The magazine *SAVIA Profesional*, February 2008

In terms of markets, nowadays Amadeus is present not only in Europe through its established offices: Madrid (head offices and marketing), Nice (development) and Erding (operations, data processing centre) but also in emerging markets in Latin America and Asia-Pacific that it has recently been boosting. In fact, Amadeus continues to be the provider of technology and distribution solutions with the highest growth in these markets, cornering over 40% of the Latin American market and almost 50% of the South American one. In short, it has dealings with customers in 76 countries that cover more than 215 markets. In addition, it has around 75 commercial organisations that provide localised solutions in marketing, customer service, account management and other customer support functions.

Figure 3: Basic decisions regarding the Amadeus business model

DECISIONS		Specification of the decisions
GROWTH	Present	Purchase of key companies: choice of technology, choice of business
	Present and past	Agreements and associations with myriad companies
	Present	International expansion at agency level
CUSTOMERS	Present	Development of the B2C business
	Past	Lifelong training and after-sales service
	Present and past	Customer guidance
	Past	Long-term relationships
	Present	Greater focus on their needs and search for new solutions and products
	Present	Development of cross-selling practices
PRODUCTS	Present	Enlargement of the product portfolio focusing on four major areas of solutions Distribution & Content: aggregate products that provide content for travel retailers, together with the means for extending the distribution of travel suppliers through a point on the sales network Sales and e-commerce: multi-channel technology for selling travel on-line and off-line Business management: Amadeus solutions designed for automating business operations, processes and administration Services & Consulting: on-line training, distance learning and face-to-face courses, as well as customer care service
	Past	Product expansion and development of the old CRS as the sole business base. Followed by GDS All the other products were developed in a manner related to the GDS: training, maintenance or new applications
INNOVATION AND TECHNOLOGY	Past	In 2000, Amadeus received quality certification (ISO 9001:2000) from the International Standards Organisation (ISO) – the first GDS company to do so. That same year it was awarded the development of two new operational applications for British Airways and Qantas Airways : the management of inventories and systems for the control of departures
	Present	The company seeks to gain the maximum advantage from the latest technological developments in order to place them at its customers' disposal through different and bespoke solutions developed on an ongoing basis. Such is the case, for example, of Amadeus Voice Services, the Amadeus system's IP network-based telephone service, which already positions it with one foot in the future
FUNDING	Past	The carriers Lufthansa, Air France and Iberia created and maintained the system because it provided them with a better and more efficient way of distributing their services with first-hand control of agencies and, furthermore, provided them with a significant amount of supplementary income
	Present	Today, over 50% of the company's stock is held by the venture capital firms BC Partners and Cinven. In the first half-year of 2010 plans are afoot to float the company on the stock market with the placement of 30% of that capital in the form of a public stock offer. In addition, the airlines that continue to hold the remaining capital are also seeking to divest themselves of part of their shares by making the most of the public stock offer and "cashing in" after 10 years.

Source: Author's own elaboration.

Question: Identify the basic features of Amadeus España's business model, as well as its more recent changes.